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STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Application of Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc., for Authority to Increase Rates for Natural Gas Service in the State of Minnesota

FINDINGS OF FACT, CONCLUSIONS, AND RECOMMENDED ORDER

This matter came on for evidentiary hearing before Administrative Law Judge Richard C. Luis on April 12, 2007 in the Small Hearing Room at the offices of the Public Utilities Commission in St. Paul, Minnesota. A public hearing was held at Raven Stream Elementary School, 300 11th Avenue, New Prague, Minnesota, at 7:00 p.m. on March 5, 2007.

At the conclusion of the evidentiary hearing, the hearing record was kept open for the filing of two posthearing exhibits, which were filed on April 23, 2007. The hearing record closed with the filing of the hearing transcript on May 1, 2007.

Eric F. Swanson, Winthrop & Weinstine, 225 South Sixth Street, Suite 3500, Minneapolis, MN 55402, appeared on behalf of Greater Minnesota Gas, Inc. (GMG, Greater Minnesota, or the Company). Ann Tessier, Vice President, Regulatory Affairs and CFO of GMG, was also present on behalf of the Company.

Julia Anderson, Assistant Attorney General, 445 Minnesota Street, Suite 1400, Saint Paul, MN 55101, and Vincent Chavez, Gas Division Supervisor for the Minnesota Department of Commerce (Department), appeared on behalf of the Department.

Robert C. Harding, Rates Analyst, and Gerald Dasinger, Financial Analyst, 121 Seventh Place East, Suite 350, St. Paul, Minnesota, appeared on behalf of the Staff of the Minnesota Public Utilities Commission (Commission).

NOTICE

Notice is hereby given that, pursuant to Minn. Stat. § 14.61, and the Rules of Practice of the Minnesota Public Utilities Commission ("Commission") and the Office of Administrative Hearings, exceptions to this Report, if any, by any party adversely affected must be filed according to the schedule which the Commission will announce. Exceptions must be specific and stated and numbered separately. Proposed Findings of Fact, Conclusions and Order should be included, and copies thereof shall be served upon all parties. Oral argument before a majority of the Commission will be permitted to all parties adversely affected by the Administrative Law Judge's recommendation who request such argument. Such request must accompany the filed exceptions or reply (if any), and an original and 15 copies of each document should be filed with the Commission.

The Commission will make the final determination of the matter after the expiration of the period for filing exceptions as set forth above, or after oral argument, if such is requested and had in the matter.

Further notice is given that the Commission may, at its own discretion, accept or reject the Administrative Law Judge's recommendation and that said recommendation has no legal effect unless expressly adopted by the Commission as its final order.

STATEMENT OF ISSUES

In this matter, the Commission has directed that an evidentiary record be established with regard to the following issues:

(1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company?

(2) Is the rate design proposed by the Company, including proposed revisions to customer charges, reasonable?

(3) Are the Company's proposed capital structure, cost of capital, and return on equity reasonable?

In addition, the Commission noted that the parties may raise and address other issues relevant to GMG's proposed rate increase.[1]

Based on all the proceedings herein, the Administrative Law Judge makes the following:

FINDINGS OF FACT

<u>A. Jurisdictional-Procedural Background</u>

1. On October 23, 2006, GMG filed a Petition with the Commission, under Minn. Stat. § 216B.16, for an increase in natural gas rates of $336,500 (overall, approximately a 7.1 percent increase) over the company's current rates.[2] GMG also filed a Petition for Interim Rates in the amount of $336,507.[3]

2. On December 19, 2006, the Commission issued the Notice and Order for Hearing finding that GMG's rate case filing was substantially complete.[4] Under that

Order, the Commission directed that a contested case hearing be convened to determine the reasonableness of the rate changes proposed by GMG. The rate design, capital structure, return on equity, and reasonableness of customer charge proposals are other issues that the Commission indicated should be addressed.[5]

3. On December 19, 2006, the Commission issued an Order Setting Interim Rates, authorizing GMG to collect $336,500 in additional annual revenues effective December 22, 2006.[6] The authorized amount was adjusted to incorporate the new base cost of natural gas set in another docket.[7] GMG is authorized to collect interim rates subject to refund to the extent that those interim rates are in excess of the final rates determined by the Commission.[8]

4. On January 19, 2007, a prehearing conference was held before Administrative Law Judge Richard C. Luis at the Commission offices in St. Paul, Minnesota. No Petitions to Intervene were filed with the Administrative Law Judge. A public hearing was scheduled for New Prague on the evening of March 5, 2007. A schedule for prefiled direct and rebuttal testimony was established. The evidentiary hearing in this matter was scheduled for April 17, 2007.[9]

5. On February 21, 2007, the Department filed comments in lieu of testimony. The Department recommended adjustments to certain types of costs revenues, and noted that these adjustments did not change the overall rate request by GMG. The Department also made suggestions for recordkeeping and data collection intended to assist GMG in future rate cases.[10]

6. On March 19, 2007, a telephone conference was held before the ALJ to clarify the status of the matter. The Department confirmed that it would not file formal testimony in this matter. PUC Staff clarified that they would be able to continue with information requests and that GMG and the Department would expedite responses to those requests. GMG and the Department requested that the evidentiary hearing date be advanced. The request was granted and this matter came on for evidentiary hearing on April 12, 2007, concluding that day. The record was held open for the filing of posthearing exhibits, which were received on April 23, 2007. The hearing record closed on May 1, 2007, with the receipt of the hearing transcript.

B. Summary of Public Comments

7. A public hearing was conducted to obtain input from customers and other interested persons regarding the proposed rate change by GMG. The hearing was held in the evening of March 5, 2007, at the Raven Stream Elementary School in New Prague, Minnesota. Several representatives appeared for GMG, including Mike Swan, Chief Operating Officer, and Ann Tessier, Vice President. Jason Bonnett, Rates Analyst for the Department, provided an overview of the system of pricing natural gas. The application was described as seeking an increase of about 7.2% in rates to cover GMG's nongas costs. Bonnett noted that the Department had filed comments regarding GMG's application, and that all of the public documents in the record were available through the Commission's E-Docket system.[11]

8. Louis Sickmann, Rates Analyst for the Commission, described the Commission's role in reviewing the rate application of GMG. Sickmann encouraged the submission of public input and noted that the Commission would make the final decision regarding the application.[12] The deadline for submitting written comments was established as March 16, 2007 and that deadline was announced at the hearing.[13]

9. GMG described how the tiered rate structure developed over time through the expansion of service to areas more distant from the transmission line. GMG noted that the filing proposes to eliminate the tier system, which will result in a range of increases for customers from below 7% to above 8%. GMG noted that this increase in delivery charges is the first increase in rates proposed in over ten years.[14]

10. Bernard and Adeline Sobczak responded to the comment regarding increasing rates. Bernard Sobczak noted that his actual gas bills were "creeping up." Adeline Sobczak indicated that the increases amounted to over $50.00. Swan responded that the wholesale price of gas has fluctuated and that the changes are passed through to customers.[15] Tessier indicated that she would follow up with the customers regarding the specifics of their billing.[16]

11. Scott Schanus inquired about a report in the New Prague Times regarding GMG's initiation of service with residents of New Prague. Tom Kellijohn of GMG responded that the Company is seeking a nonexclusive franchise with the City of New Prague. The need for a franchise was prompted by the City's annexing property including GMG's transmission pipe. GMG maintained that development was possible in the areas annexed by New Prague. With a franchise, GMG would be able to serve customers in those annexed areas. GMG is not seeking to serve customers of the existing natural gas provider, CenterPoint Energy.[17]

12. Gerald Williams, a member of the Board of Supervisors of Cedar Lake Township, inquired as to how GMG's rates had been set for some Township residents before the Commission-regulated threshold had been met. Swan responded that GMG presented a rate listing, a resolution for Board approval, and a resolution agreement (similar to a franchise agreement). Swan indicated that the rates have not changed for GMG customers since the initial agreements to serve customers in those areas.[18]

13. Williams noted that the Township's operating costs are increased by the need to avoid installed utility lines when performing road and culvert repair. The need for precise maps and clarity of which utility is operating in an area was expressed by Williams. Swan responded that only one natural gas utility would be operating in any given right-of-way. Regarding installation, Swan indicated that the resolution agreement that GMG enters with each township addresses the responsibilities of the utility to move its service when work is being performed in the right-of-way.[19]

14. Craig Svoboda related his experience regarding utility placement from working for the City of Savage. In that city, standards have been adopted to limit utility placement. In that way, consistency can be achieved in pipeline placement. Svoboda noted that he had just purchased a house in Helena Township and was perhaps GMG's

newest customer. He inquired as to when GMG anticipated its next rate increase. Swan could not commit to a particular period of time, but noted that GMG tries to keep the same rate in place for as long as possible, in part due to the complexity and expense of the rate-setting process.[20]

15. Ralph Sullivan, a customer in Le Sueur County, inquired if an audit of GMG's books was available. Swan responded that the ratemaking proceeding afforded the opportunity for the Department to thoroughly analyze GMG's finances. As a privately-held, investor-owned utility, GMG does not make its financial statements available to anyone who is not a GMG shareholder. Swan noted that the rate-setting process required GMG to meet the standards of the Department, the Commission, and the Federal Energy Regulatory Commission. Bonnett noted that the Department staff has financial analysts who review utility financial statements in these proceedings. Sickmann noted that the Commission closely reviews utility filings for reasonableness of proposed rates.[21]

16. Sullivan noted that, as a customer in the interruptible farm classification, he would be paying more in the delivery charge for additional use for only one month out of the year. The line serving Sullivan went in twelve years ago, and he maintained that GMG should not be altering rates to have existing customers subsidize new customers. Swan responded that the agricultural interruptible rate was proposed for increase from 8.5 cents to 12 cents per CCF, but that the demand charge paid by customers in that classification was proposed for elimination, thereby offsetting the increase somewhat. That rate was compared to the proposed residential rate of 27.5 cents per CCF.[22]

17. The ALJ received only one letter from the ratepaying public before the deadline for written comment on March 16, 2007. That letter was from Ralph Sullivan. He reiterated his position that GMG had not adequately supported its costs to justify an increase in customer rates. Sullivan also maintained that he is paying ten times what he paid ten years ago.[23]

C. Description of the Company

18. GMG was founded in 1995 for the purpose of extending natural gas service to previously unserved areas. In addition, a conduit network was established to extend telecommunications services in the same region. GMG's service area includes parts of the counties of Blue Earth, Scott, Steele, Rice, and Le Sueur. Retail gas is sold in the cities of Elko, Heidelberg, Mankato, Montgomery, and New Market. Retail customers are also located in 21 townships. The service area is approximately 433 square miles.[24]

19. In its initial years of operation, GMG was exempt from Commission rate regulation, due to the smaller number of customers served by the utility. In September 2002, GMG crossed the threshold number of customers that triggers rate regulation. GMG filed for authorization to continue charging its existing rates pending an anticipated rate filing in 2004. The Commission granted that request.[25]

20. GMG filed its first rate matter in 2004. The revised rate deficiency was calculated to be $513,176.[26] GMG did not request any increase in rates to address the deficiency. The parties to that proceeding settled the matter and no evidentiary hearing was held. The Commission approved GMG's compliance filing with a few revisions to the forms, schedules, and tariffs contained in the filing.[27]

21. GMG is a wholly-owned subsidiary of Greater Minnesota Synergy, Inc. GMG's parent company is a privately-owned Minnesota corporation. Greater Minnesota Synergy has over 85 investors, most of whom have an interest in the economic well-being and growth of the area served by GMG. GMG serves approximately 3,000 customers. Growth in the customer base is expected to be between 10 and 15% per year.[28]

22. Emergency response, gas purchasing, and construction activities are conducted through contracts with larger utilities, including Southwest Gas and Xcel Energy. GMG has funded its infrastructure installation and ongoing operating expenses with operating revenues, bank debt, and ongoing contributions by shareholders. GMG expects to continue this approach with increased revenue through this proceeding, while the customer base expands to further increase operating revenues.[29]

D. Natural Gas Service Areas

23. Three zones were established by GMG to categorize its natural gas customers in Minnesota. The zones are based on the customer's distance from the transmission line and were created at the time GMG expanded its service into new areas.[30] Rate Area 1 includes all of the customers in Le Sueur County, Lime and Rapidan Townships (in Blue Earth County), Belle Plaine and Helena Townships (in Scott County), and Wheatland Township (in Rice County). Rate Area 2 is for customers in Cedar Lake Township of Scott County. Rate Area 3 is for the remaining customers in the counties of Blue Earth, Rice, Scott, and Steele who are not in either Rate Areas 1 or 2.[31]

E. Greater Minnesota Gas Capital Structure

24. GMG described its capital structure as comprising only long term debt and common equity, in the following amounts:

GMG FY 2005 Capital Structure[32]

	Average Balance	Ratio	Cost	Composite Rate of Return
Long-Term Debt	$9,179,734	76.24%	5.95%	4.54%
Common Equity	$2,860,220	23.76%	10.00%	2.38%

Totals	$12,039,954	100.00%		6.91%

25. The capital structure of the Company is forecast to be:

GMG Projected FY 2006 Capital Structure[33]

	Average Balance	Ratio	Cost	Composite Rate of Return
Long-Term Debt	$10,206,658	73.03%	8.42%	6.15%
Common Equity	$3,770,060	26.97%	10.00%	2.70%
Totals	$13,976,718	100.00%		8.85%

26. The Department agrees that the foregoing capital structure is appropriate.[34]

F. Existing Rate Structure

27. Prior to approval of GMG's interim rate, the Company's natural gas rate structure consisted of the wholesale cost, basic charges, and delivery charges. The basic charge and delivery rate constitute the delivery charge portion of the customer bill. The wholesale cost for the natural gas sold to customers is passed through in customer bills without markup. Thus, the basic charges and delivery charge must account for GMG's costs of providing natural gas service and any return on investment.

Basic Service Charge

28. The basic service charge is the amount paid monthly by any customer connected to GMG's gas distribution system. GMG utilizes a block rate approach to categorizing customers. The first block, RS1, is any customer whose use does not exceed 1,999 CCF annually. For RS1 customers, the basic charge is currently $7.50 per month. The next block, CS1, is for customers usually exceeding RS1 usage but whose use does not exceed 4,999 CCF annually. The present basic charge for CS1 customers is $12.50 per month. MS1 customers do not exceed 9,999 CCF per month and the charge is currently $25.00. Usage by LS1 customers usually exceeds 9,999 CCF per month and the current basic charge is $37.50.[35]

29. A basic service charge is also paid by interruptible service customers. GMS has an interruptible rate for commercial or industrial customers, IND1, with a current basic charge of $35.00. For interruptible agricultural customers, AG1, the

current basic charge is $75.00 in October and November and $7.50 in all other months.[36]

Distribution and Base Cost of Gas

30. The remaining portion of the customer bill is the delivery charge, consisting of the distribution charge and the base cost of gas. For Rate Area 1 residential customers, the distribution charge is $0.19000 per ccf. The base cost of gas is $0.69046 per ccf.[37] Residential customers in Rate Areas 2 and 3 pay slightly higher delivery charges. Commercial classes generally pay a lower distribution charge per ccf due to the higher volume of gas consumed.[38]

G. Test Year

31. GMG proposed using the "per books" financial information for Fiscal Year 2005 (FY2005) adjusted for known and measurable changes to arrive at a test year (projected FY2006) to determine the revenue deficiency to be remedied by this proceeding.[39] Using a projected test year to determine revenue deficiency has been accepted by the Commission in past rate cases, where the projected test years can be shown to produce reliable results.[40] The Department did not object to the GMG's proposal to use a projected test year in this case.

H. Test Year Revenue, Expenses and Operating Income

32. GMG and the Department analyzed GMG's calculations of operating revenues and operating expenses. GMG filed Schedule I (admitted to the record as Company Exhibit 19) after the hearing to provide the actual figures from 2006. Those revenue figures are as follows:

OPERATING REVENUE[41]

	Present	Proposed	% Increase
Operating Revenues			
Residential	$3,317,951	$3,560,211	7.30%
Small Commercial	139,269	149,529	7.37%
Commercial	138,569	153,090	10.48%
Medium Industrial	30,887	33,0622	7.04%
Large Industrial	402,449	415,124	3.15%
Interruptible	633,183	698,449	5.32%
Other Revenues	57,075	57,075	0.00%
Total Revenues	$4,749,383	$5,066,540	6.68%

33. GMG calculated its operating expenses for the test year. The Department only disagreed with the calculations for income taxes and some general and administrative (G&A) costs. The two parties' figures are set out below:

OPERATING EXPENSES[42]

	GMG	Department	Difference
Cost of Gas Purchased	$3,652,466	$3,652,466	
Distribution			
Operation	76,749	76,749	
Maintenance	4,813	4,813	
Customer Accounts	156,785	156,785	
Sales Expense	13,600	13,600	
G&A	478,569	464,152	($14,417)
Depreciation	215,426	215,426	
Taxes Other Than Income	211,896	211,896	
Income Taxes	($32,893)	($148,680)	($115,787)
Total Expenses	$4,777,411	$4,647,207	($130,204)
Operating Income (Loss) [present revenues from Company Ex. 19 Schedule I, less total expenses]	($28,028)	$102,176	

34. GMG has agreed with the Department regarding adjustments (discussed in detail below) to income tax calculation and other expenses, cumulatively reducing GMG's expenses by $130,204.[43]

I. Rate Base

35. Based on its figures, GMG calculated its rate base as the total plant in service, less depreciation and amortization, contribution in aid of construction, and deferred tax assets. From those calculations, GMG arrived at rate base of $7,259,731.[44] The Department proposed reductions totaling $371,003 to the distribution plant and depreciation figures arising from the over-optimistic forecast of new customers and plant being held for future use.[45] The adjustment to the future use figure was proposed by GMG, after its direct testimony had been filed in this matter. The Department recommended a further reduction to the rate base of $89,957 for the deferred tax asset arising out of GMG's prior year losses. An adjustment to the plant held for future use figure (also agreed to by GMG) further reduced the plant in service figure by $235,372.[46] GMG did not contest these adjustments, resulting in a rate base figure of $6,806,033.

36. GMG used its calculations to derive its expected revenue deficiency. GMG used a gross revenue conversion factor of 1.6924. The Department noted that GMG has a net operating loss (NOL) of $2,594,485 that is carried forward. The NOL results in GMG incurring no income tax expense (reflected by a conversion factor of 1). GMG

did not object to the Department's position for this rate matter.[47] From the foregoing figures, GMG's revenue deficiency is as follows:

CALCULATION OF REVENUE DEFICIENCY[48]

Rate Base	$6,806,033
Required Rate of Return (Debt and Equity)	8.85%
Required Income	$602,334
Operating Income	$102,176
Income Deficiency	$500,158
Gross Revenue Conversion Factor	1.000000
Revenue Deficiency	$500,158

37. As described in foregoing Findings, GMG is not seeking an increase in revenue that would cover the entire revenue deficiency. GMG initially requested an increase in revenue of $336,282. After the hearing, GMG reduced the request to $317,157. The reduced request amounts to an overall increase of 6.68%.[49] The modified revenue request results in an actual ROE of 6.16%.[50]

38. Under ordinary circumstances, an actual ROE nearing two-thirds the authorized ROE would be problematic, since the required balance between shareholder interests and customer interests is not achieved (further discussed in Findings below). But GMG has legitimate business reasons for keeping rates competitive with other options (primarily propane) available to potential customers. Recovering the full deficiency could increase rates to a level that would deter new customers from choosing GMG as their gas provider. Under this circumstance, GMG's proposal to recover revenue resulting in an unusually low ROE does not result in unreasonable rates.

J. Sales Forecast

39. The rate setting methodology compares estimated future costs to estimated future sales to determine the actual rates to be charged. Thus, volumetric sales estimates usually are critical to the appropriate rates to be set. Overestimating sales can result in a utility not receiving an appropriate return on investment. Underestimating sales, in the ordinary rate case, can result in a utility receiving a higher rate of return than that authorized by the Commission. In this matter, GMG is seeking a rate increase resulting in a rate of return well below the authorized amount. This makes accurate forecasting less important to the outcome, since GMG will not be receiving an excessive return, even if sales are underestimated.

40. As of December 31, 2006, GMG had a total of 3,180 customers, which is 225 more than the prior year.[51] GMG estimates customer growth at 10–15% per year.[52] These customers purchased 420,508 Mcf of natural gas (351,035 Mcf firm sales and 69,473 Mcf interruptible sales).[53] GMG used these figures to arrive at an initial forecast of total revenue for the test year of $4,537,470.[54] Slightly different figures were used in the posthearing revenue calculation, resulting in a modified test year total revenue figure (using present rates) of $4,749,383.[55] The projected revenue under the proposed rates is $5,066,540.

41. The Department agreed that the test year figures could be used, but disagreed with GMG's methodology in arriving at those figures. The Department recommended that the Commission require that GMG continue to provide sales (energy use) data, number of customers, and weather data (in heating degree days or HDD), broken out by billing cycle and customer class and adjusted for billing errors. The Department maintains that this information, in a format that facilitates independent verification, greatly assists in addressing the issues in rate matters.[56] The suggestions of the Department are reasonable. The modified revenue calculation is reasonable and can be relied upon in setting GMG's new rates.

K. Allowable Expenses

42. To establish just and reasonable rates, the level of allowable expenses that may be used to establish the revenue requirements for the Company must be determined. These allowable expenses, when compared to the anticipated revenue from the existing rates applied to the sales forecast, determine the amount of anticipated revenue deficiency to be made up through increases in rates allocated among the customer classes.

Cost of Capital

43. The Commission must set rates that are just and reasonable.[57] The determination of reasonableness involves a balancing of consumer and utility interests. A reasonable rate enables a public utility not only to recover its operating expenses, depreciation, and taxes, but also allows it to compete for funds in capital markets. Minn. Stat. § 216B.16, subd. 6, recognizes this principle when it defines a fair rate of return as the rate which, when multiplied by the rate base, will give a utility a reasonable return on its total investment. Minnesota law requires that any doubt as to reasonableness must be resolved in favor of the consumer.[58]

44. A regulated utility's return must be reasonably sufficient to assure financial soundness and provide the utility adequate means to raise capital.[59] The investor requirement for a return sufficient to cover operating expenses includes debt service, dividends on stock and continued assurance in the utility's ability to maintain credit and attract capital.[60] To be just and reasonable, a return should be similar to returns on investments in other businesses having corresponding risk.[61]

45. The Department and GMG agreed regarding the capital structure between debt and equity to be used for setting rates in this proceeding. GMG requested a return on equity (ROE) figure of 10.00%. That figure is the currently authorized ROE, set in the prior GMG rate matter. The Department agreed with the proposed ROE.

46. In calculating the proposed ROE, a utility will commonly use a method known as a Discounted Cash Flow ("DCF") analysis. To ensure accuracy in the calculation, the utility will commonly use a range of ROEs for other utilities that are similar in size, customer characteristics, and risk. From the range of results, the utility advocates for an ROE that meets the level of return required to attract new capital on reasonable terms.[62] The DCF analysis has been historically relied upon by the Commission in establishing the cost of equity for setting reasonable rates.[63]

47. At the hearing, GMG clarified that no DCF analysis (or other similar methodology) had been performed to arrive at the ROE figure. Instead, GMG relied upon the 10.0% ROE figure that had gone into the utility's earlier rate proceeding. GMG also relied on 10.0% ROE as being within the range of the ROE figures awarded to Minnesota utilities in recent rate setting by the Commission.[64] The Department noted that GMG is seeking less than its full revenue deficiency and that, using the initial figures provided by GMG, the net ROE for the revenue increase sought was a negative 14.53% (meaning that shareholders would be subsidizing customers).[65]

48. Using the initial figures for the requested revenue increase, the Department calculated that GMG would receive a rate of return (ROR) of 2.23.[66] The figure would be higher with the adjustments agreed to in this proceeding, but still below the usual ROR for a regulated utility.[67] GMG has demonstrated legitimate business reasons for seeking a lower ROR than that required by a typical utility. As GMG's customer count increases, GMG can be expected to seek an ROR that is closer to the amounts usually awarded for natural gas utilities.

L. Corporate Overhead Allocation

49. GMG directly assigns costs incurred on behalf of its parent, Greater Minnesota Synergy, Inc. (GMS), wherever possible. Until December 2005, only one activity, a conduit network for telecommunications was conducted by GMG for GMS. In December 2005, that line of business was sold to Jaguar Communications.[68] The 2005 expenses for labor, office rent, and telephone were not directly charged. Those expenses were allocated based on a ratio of 75/25 between GMG and GMS.[69] GMG maintained that this allocation ratio accurately reflected the costs incurred for regulated and nonregulated business activities.

50. The Department analyzed the expense allocations in light of the Commission's framework for allocating costs between regulated and nonregulated business activities.[70] This framework establishes a "preferred approach" which operates as follows:

1. Tariffed rates are used to value tariffed services provided to the nonregulated activity.

2. Costs are directly assigned to either regulated or nonregulated activities whenever possible.

3. Costs which cannot be directly assigned are common costs that are grouped into homogeneous cost categories. Each cost category is then allocated based on direct analysis of the origin of the costs whenever possible. If direct analysis is not possible, common costs are allocated based upon an indirect cost-causative linkage to another cost category or group of cost categories for which direct assignment or allocation is available.

4. When neither direct nor indirect measures of cost causation can be found, the cost category is allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities, excluding the cost of fuel, gas, purchased power, and the cost of purchased goods sold.[71]

51. GMG indicated that it was using the "preferred approach" in its cost allocation for nonregulated business activity in 2005. The Department acknowledged GMG's use of this approach, noting that the divestiture of the nonregulated business in December 2005 rendered allocation for future costs unnecessary until such time as either GMG or GMS reenter unregulated business activities. In anticipation of such a reentry, the Department assessed GMG's methodology for cost allocation.[72]

52. The Department noted that the ratio of total expenses directly attributed between GMG and GMS was 77/23 percent, respectively. The Department listed 14 directly charged costs that were entirely allocated either to GMS or GMG that could have been allocated (mostly A&G expenses). The total of these expenses results in 73% assigned to GMG and 27% assigned to GMS. The remaining directly assigned expenses fall in a 78/22 percent ratio between GMG and GMS, respectively. The Department concluded that the 75/25 cost allocation was reasonable.[73]

53. GMG has demonstrated that its cost allocations between regulated and unregulated business activities are reasonable. The Department's suggestions should be helpful to GMG (and its parent company, GMS) in the event that the business reenters an unregulated line of business. GMG's approach satisfies the Commission's allocation criteria.

M. Advertising

54. GMG proposed to recover $5,815 in informational advertising expenses in test year expenses.[74] The Department agreed that the content of the advertising met the criteria set forth in Minn. Stat. § 216B.16, subd. 8, and concluded that the entire

expense was recoverable under that criteria.[75] The advertising expense is reasonable and should be included in the test year expense.

N. Marketing and Economic Development

55. GMG proposed to exclude any test year expenses for marketing. The marketing expense identified was a rebate program for natural gas-fired hot water heaters. The Department agreed marketing expense was appropriately excluded from the allowable test year expenses.[76] GMG incurred no economic development expenses in the test year and did not propose to include any such expenses in the revenue calculation.[77]

O. Bad Debt

56. GMG proposed to recover $7,266 for bad debts, derived by an actual bad debt cost of $14,200 reduced by $6,934.[78] The Department agreed that the bad debt expense was appropriate and should be included in the allowable test year expenses.[79]

P. Organizational Dues

57. GMG proposed to recover $1,591 for organizational dues, consisting primarily of membership in business organizations to promote sales contacts and advance corporate interests.[80] The Department noted that the actual dues did not include a corporate country club membership that had been included in GMG's prior rate case. The Department agreed that GMG's proposal for organizational dues is reasonable and should be included in test year expenses.[81]

Q. Regulatory/Rate Case Expenses

58. GMG proposed to include $13,952 in the test year for regulatory commission expenses. GMG indicated that this expense was adjusted for the 2005 regulatory expense in A&G in 2005, resulting in an adjusted total of $9,696.[82] The Department maintained that the figure for 2005 in a later filing was $11,412, resulting in an adjusted figure of $2,540.[83] That same filing indicated regulatory expenses in the amount of $21,107 for 2006.[84]

59. GMG did not contest the Department's recommendation. The ALJ notes that the amount proposed by GMG for rate case expenses is, in absolute terms, very modest. By contrast, in a recent rate matter of another gas utility with a small Minnesota customer base, there was no objection raised to that utility's proposal to recover rate case expenses in the amount of $308,450, amortized over three years.[85] The ALJ recommends that the Commission accept the Department's correction, as agreed to by GMG, as reasonable.

R. Revenue Deficiency

60. The ALJ agrees with the parties to this matter that GMG has demonstrated a revenue deficiency of approximately $500,000 (see Finding 36, *supra*). The precise amount of GMG's revenue deficiency depends upon the particular adjustments made to revenue and expenses. In general, if GMG were to make up the entire revenue deficiency, an increase in revenue of approximately 10.53% would be required.[86]

S. Conservation and Rate Design

Conservation

61. In accordance with Minnesota Statutes § 216B.241, GMG filed its 2005-2006 Conservation Improvement Plan ("CIP") with the Department. The Department issued a decision approving the 2005-2006 CIP on November 30, 2004.[87] The amount approved for 2006 CIP expenses was set at $13,600.[88] GMG proposed to include this amount for CIP expenses in the test year. The Department agreed with the proposal and requested that the Commission approve GMG's proposed test year CIP expenses as reasonable.[89]

Principles of Rate Design

62. An important aspect of reasonable rates is their design.[90] After the Commission determines the utility's revenue requirement, how those requirements will be paid by customers must be established. Rate design is the application of revenue requirements to customer classes. In this particular circumstance, GMG's decision to forego full recovery of its revenue requirement will result in a lower burden on each customer class, but the division of the increase between classes must still be made.

63. The Commission's design of rates is a largely quasi-legislative function. The application of proportional distribution of the revenue requirement among customer classes involves policy decisions that are guided by fundamental principles of rate structure. The preference to eliminate cross-subsidization, for example, may be balanced against drastic changes in the cost of natural gas to particular rate classes. As summarized in a recent contested case proceeding, the Commission has used the following principles in its rate design decisions:

> Rates should be designed to provide the Company a reasonable opportunity to recover all prudently incurred costs, including costs of attracting capital. These rates, when matched to test-year customer counts and sales projections, should allow the Company a reasonable opportunity to collect its revenue requirement.
>
> Rates should be designed to promote an efficient use of resources. As such, they should reflect the costs that classes of customers impose upon the system.
>
> Rates and conditions of service should provide a reasonable continuity with the past. Rate-design changes should be reasonable and, to the extent possible, gradual to prevent drastic impacts on existing customers.
>
> Rates should be understandable and easy to administer.[91]

Customer Cost of Service Study

64. As part of this rate application, GMG prepared a customer cost of service study (CCOSS). The CCOSS analyzed GMG's administrative and operating costs and attempted to associate identifiable costs with the particular class of customer triggering the cost. As measured by the CCOSS, the costs identifiable to the residential customer class are $179.14 per customer. The costs per customer are $2,250.10 for the commercial, industrial, and interruptible classes (which were consolidated for the calculation). GMG's customer mix is 79.91% residential, 11.78% commercial, 1.39% industrial, and 6.93% interruptible.[92]

65. Since GMG is in the early stages of the growth of its business, the basic service charge for residential customers would need to be unreasonably high to accurately reflect the residential customers' fixed cost responsibility. In line with its business plan, GMG proposes to adjust its revenue apportionment among the customer classes. Each class will continue to benefit from charges that are below GMG's demonstrated costs, when a reasonable ROR is included in those costs.

66. The proposed revenue increase was apportioned by GMG to its rate classes is as follows:

Summary of Greater Minnesota's Revenue Apportionment[93]

Class	**GMG Apportionment**	**Percent Increase** Including Gas Costs	Excluding Gas Costs
Residential	70.01%	7.31%	28.34%
Small Commercial	2.94%	7.38%	28.22%
Large Commercial	3.01%	10.50%	53.23%
Medium Industrial	0.65%	7.06%	75.76%
Large Industrial	8.16%	3.16%	39.10%
Int. - Agricultural	2.10%	30.09%	224.20%
Int. – General	12.01%	5.13%	44.96%

67. In responding to the public comments received in this proceeding, GMG noted that an error had been made in the calculation of the increase for the Interruptible – Agricultural customer class. Rather than the 30.09% increase shown in the preceding Finding under "Including Gas Costs", the increase is accurately stated as 6.7%.[94] The amount of the increase excluding gas costs for the Interruptible – Agricultural class was not calculated. The accurate calculation of the annual increase for that class averages $323.35 ($5,497 ÷ 17 customers), which is $1,125 less than the increase that the average class member was to have incurred under the original proposal.

68. The Department concluded that the proposed allocations comply with the well-established principles of rate design. The proposed allocation more closely aligns

the revenue collected closer to the classes generating the expenses. The retention of the existing customer classes ensures continuity with past rates. For these reasons, the Department agreed with GMG's proposed allocations.[95]

Basic Service Charge

69. Based on its CCOSS, GMG proposed increasing the amount of fixed charges recovered under certain rate schedules to move toward a more compensatory fixed charge rate. The basis for the increased amounts proposed to be collected though the Basic Service Charges is the customer component identified in the CCOSS. The Company proposed the following Basic Service Charges in this case:[96]

Class of Service	Present Customer Charge	GMG's Proposed Customer Charge
Firm Service		
Residential	$7.50	$8.00
Small Commercial	$7.50	$8.00
Large Commercial	$12.50	$25.00
Medium Industrial	$25.00	$75.00
Large Industrial	$37.50	$150.00
Interruptible Service		
Agricultural – October & November	$75.00	$125.00
Agricultural – December - September	$7.50	$12.50
General Interruptible	$35.00	$175.00

70. The Department reviewed GMG's proposed changes to the basic service charge. These changes constitute the first increases in this charge since rates were first established for GMG. The new charge would be consistent with the basic charges for residential customers of other natural gas utilities. For these reasons, the Department agreed with GMG that the proposed basic charge be adopted. For residential customers, an increase of $0.50 in the residential customer charge would not constitute rate shock.

71. While the basic charges for the large commercial, industrial, agricultural, and interruptible classes are being significantly increased from current levels, the amounts are consistent with the gradual movement towards actual costs. The amounts proposed are far below the cost per customer in these classes as demonstrated in the CCOSS. The proposed charges are consistent with charges for similar classes of other utilities. The Department agreed with GMG's proposed basic charges for these classes. The proposed changes would not constitute rate shock.

Distribution and Base Cost of Gas

72. GMG proposed that its distribution charge be increased for RS1 customers from $0.19000 to $0.27500 per ccf. Residential customers in the other two rate areas

would see slightly smaller increases, since they already pay more than the current Area 1 rate ($0.20000 per ccf for Area 2 and $0.21000 per ccf for Area 3). The base cost of gas would be increased from the existing level of $0.69046 to that determined by the Commission in a companion docket.[97] Residential customers in Rate Areas 2 and 3 currently pay a slightly higher distribution charge than the RS1 customers, so their increase, also to $0.27500 per ccf, will be a slightly smaller percentage increase. Commercial classes generally pay a lower distribution charge per ccf due to the higher volume of gas consumed. Depending on the decisions regarding other components of GMG's proposed rate increase, the distribution charge is adjusted appropriately to arrive at the revenue required by GMG.

Elimination of Demand Charge for Interruptible Customers

73. GMG's existing rate schedule calculates the total cost of gas with a demand charge of $0.8628 and a commodity charge of $7.6893, for all customer classes. The proposed rates use the same approach, with a demand charge of $0.7247 and a commodity charge of $7.6893, resulting in a total cost of gas of $8.5521. The difference lies in the treatment of interruptible customers. GMG proposes no demand charge for these customers, thereby reducing the total cost of gas for interruptible customers to $7.6893.[98]

74. The Department noted that the Commission has discussed allocation of demand costs to interruptible customers.[99] Since no action has yet been taken to require such allocations, the Department expressed no objection to the elimination of the demand charge for interruptible customers.[100]

Consolidation of Rate Areas

75. GMG has proposed to eliminate the differences in rates for customers by rate area. The Department agreed with the consolidation as compliant with the rate design principles. The same pipeline serves all GMG's customers. The Department considered the rate consolidation as a means of fostering an efficient, understandable, and more easily administered rate structure.[101] The Department did not express an opinion as to whether the consolidation would result in rate shock.

76. GMG's proposal will result in a simpler rate system. There will be a slightly higher increase for customers who are in Rate Area 1 than for customers in the other two rate areas. This does not result in unreasonable rates or rate shock, since the increases are small and GMG has been foregoing cost recovery (thereby subsidizing customers). Approving the consolidation of rate areas is consistent with the Commission's prior rulings regarding rate shock and customer confusion.

Cost and Load Justification of Extensions

77. GMG has maintained the same extensions policies from its initial provision of service. GMG indicated that no cost and load justification of its extensions policies has been done. The Department noted that the Commission has required such a justification in other gas rate proceedings. In response to discovery, GMG indicated

that main extensions into unserved areas had exceeded the applicable criteria in some instances. GMG noted that such extensions had been excluded from the current rate base in this proceeding and no cost recovery of that investment is sought at this time. GMG is relying upon infill of the areas being reached by these extensions to provide needed customer growth.[102] The Department did not object to the continuation of the current extension policy. The Department indicated that it would work with GMG so that a quantitative study could be provided to support the cost and load justification of extensions policies.[103]

Proposed Extension Tariff Changes

78. GMG proposed two changes to its extension tariffs. One change would eliminate a typographical error and the other would increase the existing $1.25 per foot charge for service line installation over the 250 foot allowance to $1.34 per foot. The Department concluded that the change in the cost per foot charge was reasonable.[104]

T. Nonrate Issues

79. GMG's CCOSS did not attempt to analyze all customer class costs individually. Several customer classes were combined due to the few customers in those classes. The Department proposed that, in its next rate case, GMG separately assess costs for each class in its CCOSS. The Department also recommended that GMG allocate some costs from the rate base expenditures in the areas of Land & Land Rights, Mains, and Measuring & Regulating Equipment from capacity costs to customer costs. The Department laid out the mechanism by which such an allocation can be accomplished. The Department also recommended using actual peak day data.[105]

U. Concepts to Govern

80. Detailed financial information was submitted by GMG after the hearing in this matter. The Department has not had an opportunity to comment on that information or its impact on the rate calculations needed to arrive at just and reasonable rates. Thus, the particular calculations contained in this report are a merging of the information from the Department and the new financial information from GMG. It is the intention of the ALJ that the concepts set forth in the Findings and Conclusions should govern the mathematical and computational aspects of the Findings and Conclusions. Any computations found to be in conflict with the concepts expressed should be adjusted to conform to the concepts expressed in the body of this Report.

Based on the Findings, the Administrative Law judge makes the following:

CONCLUSIONS

1. The Administrative Law Judge and the Minnesota Public Utilities Commission and have jurisdiction over the subject matter of this proceeding pursuant to Minn. Stat. § 14.50 and Minn. Stat. Ch. 216B.

2. Any of the Findings which contain material which should be treated as a Conclusion are adopted as Conclusions.

3. The sales forecasts relied upon by GMG, while optimistic, are reasonable to predict the sales volumes for the 2006 test year. The forecast volumes for that test year are reasonable predictions upon which the Commission can rely in setting rates in this matter.

4. GMG's sales volumes prediction results in an estimated sales revenue of $5,066,540 (including other revenue).

5. The capital structure agreed to by the parties is reasonable. GMG has demonstrated that a rate of return on equity of 10.00 percent is reasonable. GMG has demonstrated that an overall rate of return of 8.85 percent is reasonable.

6. The parties agreed that GMG's operating expenses should be reduced by $130,204 (primarily in the income tax area).

7. GMG has demonstrated that an increase in the residential basic charge to $8.00 per month and the similar increases in other rate classes would not result in rate shock to customers.

8. GMG has demonstrated that consolidating its rate areas is appropriate to reduce customer confusion. That consolidation will not result in rate shock.

9. The record in this matter shows that GMG will experience a revenue shortfall of approximately $500,000, constituting a revenue requirement increase of approximately 9.87%.

10. GMG initially proposed to recover $336,282, and later reduced its recovery proposal to $317,157. GMG is entitled to recover this revenue shortfall through an adjustment of natural gas rates in the manner described in the Findings and Conclusions above. The adjustment results in just and reasonable rates that are in the public interest within the meaning of Minn. Stat. § 216B.11.

11. The rate finally ordered by the Commission may be compared to the interim rate set in the Commission's December 19, 2006 Order, and a refund be ordered to the extent that the interim rate exceeds the final rate, in the exercise of the Commission's discretion.

12. In considering whether a refund should be ordered, it is appropriate for the Commission to consider whether the overall amount of the refund is *de minimis* and that GMG is seeking to recover rates well below the Company's authorized rate of return.

Based on the Findings and Conclusions, **IT IS RECOMMENDED** that the Public Utilities Commission issue the following:

ORDER

1. GMG is entitled to increase gross annual revenues in accordance with the terms of this Order.

2. Within 30 days of the service date of this Order, the Company shall file with the Commission for its review and approval, and serve on all parties in this proceeding, revised schedules of rates and charges reflecting the revenue requirement for annual periods beginning with the effective date of the new rates, and the rate design decisions contained herein. The Company shall include proposed customer notices explaining the final rates. Parties shall have 14 days to comment.

3. (If the Commission orders an Interim Rate Refund) within 30 days of the service date of this Order, the Company shall file with the Commission for its review and approval, and serve upon all parties in this proceeding, a proposed plan for refunding to all customers, with interest, the revenue collected during the Interim Rate period in excess of the amount authorized herein. Parties shall have 14 days to comment.

Dated this 16th day of May, 2007.

__/s/ Richard C. Luis_________
RICHARD C. LUIS
Administrative Law Judge

Reported: Shaddix and Associates
Transcript Prepared, One Volume

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[1] *ITMO the Application of Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc., for Authority to Increase Rates for Natural Gas Service in the State of Minnesota*, (Notice and Order for Hearing issued December 19, 2006)(GMG Notice of Hearing), at 3 (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3641498).
[2] Company Ex. 1 (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3374783).
[3] Company Ex. 2 (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3374781).
[4] Notice of Hearing, at 1.
[5] *Id*. at 3.
[6] Order Setting Interim Rates, issued December 19, 2006) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3641499).
[7] *Id*., at 3 (citing *In the Matter of Petition by Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc., to Establish a New Base Cost of Gas to Coincide with the Implementation of Interim Rates*, Docket No. G-022/MR-06-1491).
[8] Order Setting Interim Rates, at 2-3.
[9] First Prehearing Order, issued February 5, 2007 (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3758578).

[10] Department Exhibit 9 (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3814962).
[11] Public Hearing Transcript, at 19-24 (Bonnett).
[12] Public Hearing Transcript, at 11 (Sickmann).
[13] *Id*. at 18-19 (ALJ Luis).
[14] Public Hearing Transcript, at 5-9 (Swan).
[15] *Id*. at 9-10 and 29-30.
[16] *Id*. at 31-33.
[17] Public Hearing Transcript, at 12-17 (Kellijohn).
[18] Public Hearing Transcript, at 33-37.
[19] Public Hearing Transcript, at 37-40.
[20] Public Hearing Transcript, at 41-44 (Svoboda).
[21] Public Hearing Transcript, at 45-49.
[22] Public Hearing Transcript, at 53-57.
[23] Public Exhibit 10.
[24] Company Ex. 3, Tessier Direct, at 1-2 and Exhibit A, Section II, Index of Company's Service Area, 1st Revision (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3374784).
[25] *ITMO Greater Minnesota Gas, Inc. Extending Service to More Than 2,000 Customers and Becoming Subject to Minn. Laws, Ch. 216B*, G-022/M-03-117 (Order Authorizing Rates, Requiring General Rate Case and Other Filings issued August 28, 2003) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=1555490).
[26] *ITMO a Petition by Greater Minnesota Gas, Inc., for Authority to Establish Natural Gas Rates in Minnesota*, G-022/GR-04-667, Findings of Fact, Conclusions, Recommendation and Memorandum, at 3 (ALJ Recommendation issued February 17, 2005) (*GMG 04-667 Matter*). (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=2015951).
[27] *GMG 04-667 Matter*, (PUC Disposition issued July 5, 2005) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=2148901)
[28] Company Ex. 3, Tessier Direct, at 2-5; Company Ex. 1, Notice of Change in Rates, at 1.
[29] Company Ex. 3, Tessier Direct, at 2-3.
[30] Public Hearing Transcript, at 7-9 (Swan).
[31] Company Ex. 3, Tessier Direct, Exhibit A, Section IV, Technical Terms and Abbreviations, 1st Revised.
[32] Company Ex. 4, Schedule G (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3374785).
[33] Company Ex. 4, Schedule G.
[34] Department Ex. 9, at 4 (Chavez Comments).
[35] Company Ex. 3, Tessier Direct, Exhibit A, Section V, General Firm Service Rate, 1st Revised.
[36] Company Ex. 3, Tessier Direct, Exhibit A, Section V, General Firm Service Rate, 1st Revised.
[37] *Id*.
[38] *Id*.
[39] Company Ex. 3, Tessier Direct, at 3.
[40] *See ITMO the Application of Northern States Power Company for Authority to Increase its Rates for Electric Service in the State of Minnesota,* Docket No. E-002/GR-91-1 (PUC Findings Of Fact, Conclusions Of Law And Order issued November 27, 1991).
[41] Company Ex. 19, (Tessier), Schedule I (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=4040973).
[42] Department Ex. 9, Attachment 3A, at 4 (Chavez Comments).
[43] Hearing Transcript, at 11-12.
[44] Company Ex. 4, Schedules B and C (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3374785); Department Ex. 9, Attachment 3A, at 2 (Chavez Comments).
[45] Department Ex. 9, at 4-5, Attachment 3A, at 3 (Chavez Comments).
[46] *Id*.
[47] Id. at 6.
[48] This calculation follows the Department's approach, updating for GMG's later filed information and the agreed-to adjustments in expense calculation. *See* Department Ex. 9, Attachment 1, at 1 (Chavez Comments).
[49] Company Ex. 19, (Tessier) Schedule I.

[50] Calculated as operating income plus revenue increase requested, divided by the rate base [(102,176 + 317,157) / 6,806,033 = 0.06161].
[51] Department Ex. 9, at 5 (Chavez Comments)
[52] Company Ex. 3, Tessier Direct, at 3; Schedule B.
[53] Department Ex. 9, Attachment 4, Schedule C-1 (Chavez Comments)
[54] *Id*.
[55] Company Ex. 19, (Tessier) Schedule I.
[56] Department Ex. 9, at 5-6 (Chavez Comments)
[57] Minn. Stat. § 216B.03.
[58] *Id*.
[59] *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia,* 262 U.S. 679, 693 (1923).
[60] *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944).
[61] *Id*. at 603.
[62] *ITMO a Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. for Authority to Increase Natural Gas Rates in Minnesota*, G-004/GR-04-1487, at 8-10 (PUC Findings of Fact, Conclusions of Law, and Order issued May 1, 2006) (*Great Plains*) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3042875).
[63] *ITMO the Application of CenterPoint Energy Minnesota Gas, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota*, G-008/GR-05-1380, at 30 (PUC Findings of Fact, Conclusions of Law, and Order issued November 2, 2006)(*CenterPoint 2006*) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3560745).
[64] Hearing Transcript, at 24-25 (Tessier).
[65] Department Ex. 9, at 4 (Chavez Comments).
[66] Department Ex. 9, at 4 (Chavez Comments).
[67] *CenterPoint 2006*, supra, at 36 (setting ROR at 7.54%).
[68] Company Ex. 8, Supplemental Filing, Vol. 3, Attachment 7.
[69] Company Ex. 3, Tessier Direct, at 6.
[70] *ITMO an Investigation into the Competitive Impact of Appliance Sales and Service Practices of Minnesota Gas and Electric Utilities*, G,E-999/CI-90-1008 (Order Setting Filing Requirements issued September 28, 1994)(clarified by Commission Order issued March 1, 1995)(generally, "*1008 Docket*").
[71] *1008 Docket*, (Order Setting Filing Requirements issued September 28, 1994)(as clarified by the March 1, 1995 Order).
[72] Department Ex. 9, at 9 (Chavez Comments).
[73] Department Ex. 9, at 9-11 (Chavez Comments).
[74] Company Ex. 3, Tessier Direct, at 7.
[75] Department Ex. 9, at 13 (Chavez Comments).
[76] Department Ex. 9, at 13 (Chavez Comments).
[77] *Id*. at 14 and Attachment 6.
[78] Company Ex. 4, Attachment 3, Schedule D-1, at 1.
[79] Department Ex. 9, at 14 (Chavez Comments).
[80] Company Ex. 3, Tessier Direct, at 8; Company Ex. 4, Schedule D-5.
[81] Department Ex. 9, at 15 (Chavez Comments).
[82] Company Ex. 4, Attachment 3, Schedule D-2, at 2.
[83] Department Ex. 9, at 12 (Chavez Comments).
[84] Company Ex. 8, Schedule 6, at 2
[85] *Great Plains*, G-004/GR-04-1487, at 29 (PUC Findings of Fact, Conclusions of Law, and Order issued May 1, 2006).
[86] *See* Company Ex. 19, Schedule I (dividing the revenue deficiency of $500,000 by present revenue of $4,749,383).
[87] *ITMO the Implementation of Greater Minnesota Gas, Inc.'s 2005-2006 Natural Gas Biennial Conservation Improvement Program*, G022/CIP-04-843 (Commissioner's Decision issued November 30, 2004) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=1953819)("*GMG CIP*").
[88] *GMG CIP* (Addendum to Commissioner's Decision issued December 17 2004) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=1973218); Department Ex. 9, (Chavez Comments), Attachment 7.

[89] Department Ex. 9, at 14 (Chavez Comments).
[90] *See* Minn. Stat. § 216B.03.
[91] *Great Plains*, G-004/GR-04-1487, ALJ Findings of Fact, Conclusions, and Recommended Order, at 44 (ALJ Recommendation issued November 4, 2005) (https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=2468546); *see also* Department Ex. 9, at 19 (Chavez Comments).
[92] Company Ex. 4, Attachment 5, CCOS Schedule H.
[93] Department Ex. 9, at 19, Table 5 (Chavez Comments).
[94] Company Ex. 19 (Tessier).
[95] Department Ex. 9, at 19-20 (Chavez Comments).
[96] Department Ex. 9, at 18 (Chavez Comments).
[97]. *ITMO the Petition by Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc., to Establish a New Base Cost of Gas to Coincide with the Implementation of Interim Rates*, PUC Docket No. G-022/MR-06-1491 (PUC Order Setting New Base Cost of Gas issued December 19, 2006)(https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=3641502).
[98] Company Ex. 4, (Tessier Direct) Schedule I-1.
[99] *ITMO the Review of the 2005 Annual Automatic Adjustment of Charges for all Electric and Gas Utilities*, PUC Docket No. E, G-999/AA-05-1403; Department Ex. 9, at 20 (Chavez Comments).
[100] Department Ex. 9, at 20 (Chavez Comments).
[101] Department Ex. 9, at 20 (Chavez Comments).
[102] Department Ex. 9, at 22 (Chavez Comments) and DOC Attachment 11.
[103] Department Ex. 9, at 22 (Chavez Comments).
[104] Department Ex. 9, at 21 (Chavez Comments).
[105] Department Ex. 9, at 16-17 (Chavez Comments).